

TSI Ferrous Scrap Review - May 2011

Monthly Summary

- ▶ Global scrap prices rose across the board in May in spite of declines in other ferrous raw material markets, highlighting tight supply, despite increasing seasonal flows.
- ▶ Transaction prices for EU and US/UK material diverged over the month, with the US/UK material commanding a larger-than-usual premium over the former.
- ▶ US buyers almost universally anticipating (or at least voicing) a 'flat-to-down' opinion on price direction were confounded by a strong upward push in prices during "buy week".
- ▶ Indian prices rose incrementally throughout the month as they struggled to compete with other buyers around the world. Prices finished the month at an all-time TSI index high.
- ▶ Since February, all markets tracked have been bound within a US\$31/t maximum range. US domestic market and export yards disconnect fundamentally.

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TSI Weekly Scrap Reference Prices (change week-on-week)										
	Apr 30-May 6		May 7-13		May 14-20		May 21-27		May 28-Jun 3	
Turkish Imports HMS 1&2 80:20, CFR Port (US\$/t)	462	+2.2%	466	+0.9%	453	-2.8%	468	+3.3%	474	+1.3%
US Domestic Shredded, delivered mill (US\$/l.t)	439	-3.3%	436	-0.7%	436	0.0%	437	+0.2%	456	+4.3%
Indian Imports Shredded, CFR Port (US\$/t)	487	+0.4%	488	+0.2%	489	+0.2%	489	0.0%	490	+0.2%

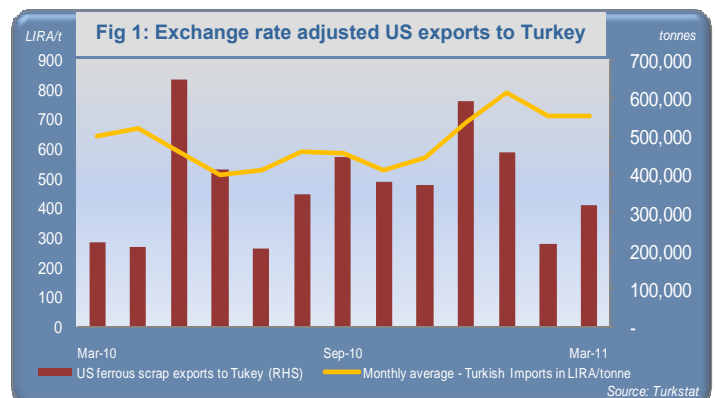
Scrap Freight Rates (for 40,000t bulk scrap cargo)										
	Apr 30-May 6		May 7-13		May 14-20		May 21-27		May 28-Jun 3	
Northern Europe - Turkey (US\$/t)	22	-4.3%	22	0.0%	24	+9.1%	24	0.0%	25	+4.2%
US East Coast - Turkey (US\$/t)	30	0.0%	30	0.0%	33	+10.0%	33	0.0%	35	+6.1%

Implied Netbacks (change week-on-week)										
	Apr 30-May 6		May 7-13		May 14-20		May 21-27		May 28-Jun 3	
HMS 1&2 80:20, FOB Rotterdam (US\$/t)	440	+2.6%	444	+0.9%	429	-3.4%	444	+3.5%	449	+1.1%
HMS 1&2 80:20, FOB US East Coast (US\$/t)	432	+2.4%	436	+0.9%	420	-3.7%	435	+3.6%	439	+1.0%

TSI Monthly Averages (change month-on-month)										
	January	February	March	April	May					
Turkish Imports HMS 1&2 80:20, CFR Port (US\$/t)	501.40	+10.7%	446.00	-11.0%	451.75	+1.3%	446.00	-1.3%	464.60	+4.2%
US Domestic Shredded, delivered mill (US\$/l.t)	472.00	+11.6%	455.50	-3.5%	456.00	+0.1%	453.00	-0.7%	440.80	-2.7%
Indian Imports Shredded, CFR Port (US\$/t)	478.20	+10.4%	467.75	-2.2%	480.50	+2.7%	481.00	+0.1%	488.60	+1.6%

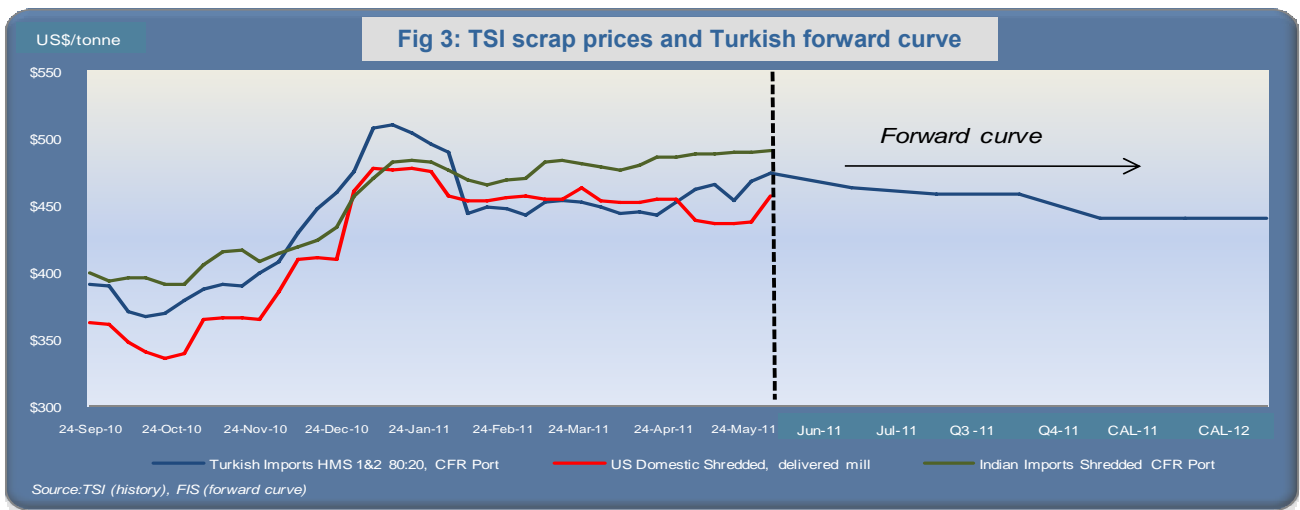
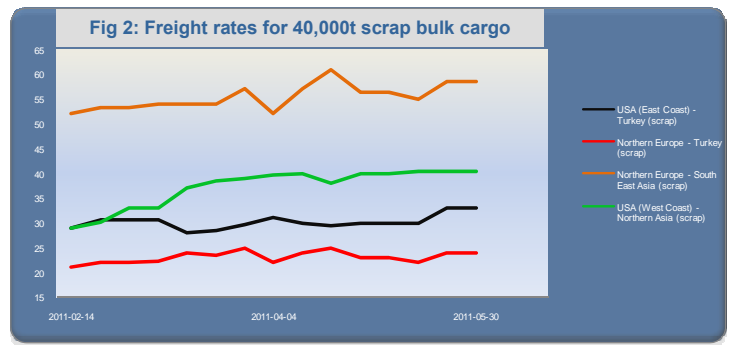
Turkey

- ▶ The Turkish market started the month steadily, with a small rise in the first week of May. High quality material was in demand by the market, and spreads therefore widened between the various grades. The grade-normalised spread reached around US\$25/tonne. Bookings ramped up the following week and over half a million tonnes was confirmed by the 13th of May. Shredded sales reached US\$470/tonne, with lower quality material in the US\$440/t range.
- ▶ The market quietened down in week 3 of May, with the BIR conference and a national holiday in Turkey cited as reasons for low tonnage bookings. The index fell accordingly, as offers by recyclers were lowered in a bid to entice mills to begin purchasing once more. Sentiment became bearish, with the caveat that once BIR was finished, mills would come back looking for cargoes. ...
- ▶ ...and so it was. Scrap booking prices rose by US\$21/t between weeks 3 and 5, after a brief hiatus. Stronger than expected steel demand for the domestic Turkish market and some recovering exports to Egypt reversed the sentiment and scrap became a bull market.
- ▶ Mills started ramping up production in week 3 in order to take advantage of higher longs prices, and with cargoes booked earlier in the month starting to arrive from European recyclers, producers are looking to melt as much as possible in the coming weeks.
- ▶ A marked preference for USEC/UK over EU material was shown by Turkish mills during May, widening the historic premium.



United States

- ▶ The US domestic market kicked May off by sliding US\$15/l. ton from the end of April. Nonetheless, this was a far softer fall than many had been anticipating with some market participants predicting the price for shredded scrap could fall US\$40/l. ton. In the event, rising export prices and sales helped offset increasing inland flows.
- ▶ As the month continued, little bites from buyers led to the index falling a further US\$3/l. ton week-on-week. Falls came despite exporters' continued demand, with weakening sheet markets encouraging bearishness inland. Many felt there was material on hand to satisfy demand, with increasing flows and expectations of floods halting production in the South.
- ▶ As the month turned, the strong export markets off the coast were felt inland, as attractive prices were tempting material Eastwards, forcing Midwestern buyers to compete on price. A few traders voiced the opinion that some major US recyclers were overextended in terms of scrap exports and would not be able to fill all their cargoes with material that they have available, lending domestic price support through fear of tight supply.



India

- ▶ TSI's Indian index reached its highest level since reporting began on this market. A weakening US dollar, stable long prices and scrap tonnage availability being reduced by heavy Turkish buying activity all contributed to this rise. At the recent BIR conference attended by TSI, it was stated that Indian imports are set to be lower this year in comparison to last as importers are finding the high prices prohibitive.
- ▶ Following the price rises in the beginning of the month, the price stabilised as steady demand was offset by an unwillingness by traders to restock large volumes as sentiment wobbles between bearish and bullish. Billet and TMT prices have had little price uniformity in India's various regions. The high price of scrap has mills looking at scrap alternatives such as DRI.
- ▶ The HRC price has been relatively stable during Q2 this year, but mills across the board have raised their prices by around US\$10/t - which reflects their need to offset increased input costs, rather than increasing end-user demand.

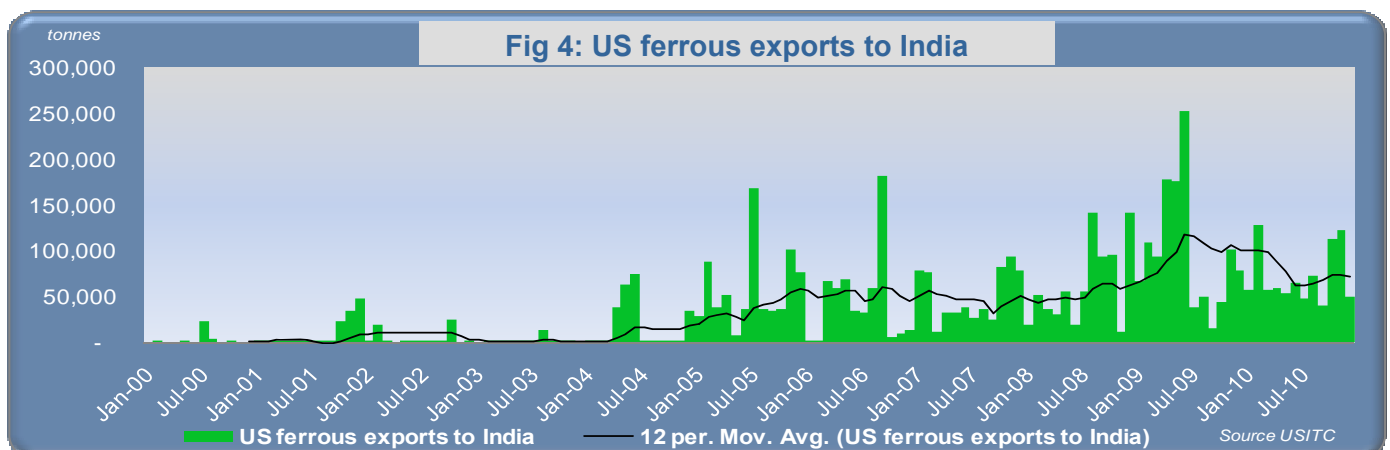
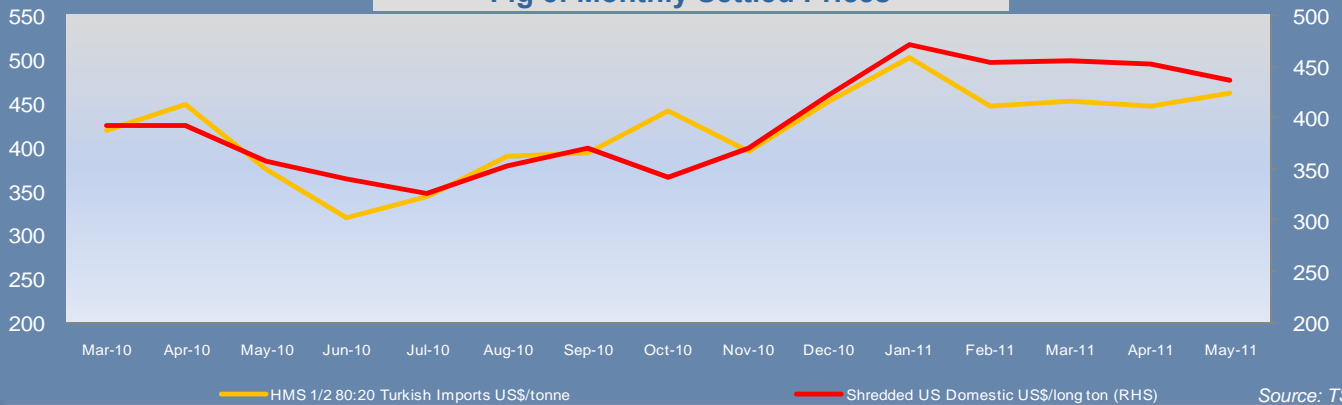


Fig 5: Monthly Settled Prices


Source: TSI

TSI on the market - June

- ▶ As May closed out, US exporters were heard to be in a continued bullish mood. Prior to 'buy week' USEC offers were around the US\$480/t mark, CFR.
- ▶ With US inland prices rising by US\$19/l.ton last week, can Turkish buyers expect to face new offers approaching, or breaching US\$500/t CFR? Or, will Turkey take some of the heat out of the market by withdrawing temporarily? May saw over 1.1mt of ferrous scrap booked for delivery to Turkish shores from the US, EU and Baltic regions.
- ▶ In three out of the four last years, US scrap prices have risen between June and July. Export demand levels will be crucial to domestic market price direction in July 2011... All eyes on Turkey then.
- ▶ In Turkey, however, eyes will be outward looking. Domestic consumption levels have been good, but the factor which will move prices up further would be improving export demand in the key MENA market, with some areas finally coming back after their recent upheaval.
- ▶ If Turkey finds additional sources of demand, European exporters **could** cap off potential gains due to their discount to US material, if Turkish buyers decide to switch buy-origins. This depends on whether EU yards have material to meet demand and whether US exporters would allow recently widened US/EU premiums to shrink.
- ▶ Will Indian buyers increase purchasing levels now, before the Monsoon season kicks in? Prices to ease as scrap purchasing dies down from beginning of the holiday season in Europe. Recovery of Southern US mills and restart of production US export yards scramble for material in the interior in order to load cargoes.

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Transaction price data is submitted confidentially to TSI on-line by companies buying and selling a range of relevant iron ore, scrap and steel products. TSI's index reference prices are then calculated using transparent and verifiable procedures.

TSI supplies the scrap reference price for the world's first cleared scrap swap contract open to international trade. LCH.Clearnet offers a clearing service for Over-the-Counter (OTC) scrap swap contracts, settling against TSI's price for Turkish scrap imports of HMS 1&2 80:20.

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